

# LASERS and TRSL

## System Updates

Senate Retirement Committee  
April 20, 2015



# Overview

- Systems at a Glance
- Funding Sources
- Contribution Rates
- Legislative Reforms
- Unfunded Accrued Liability (UAL)
- Summary

## Systems at a Glance

Membership	Fiscal Year 2014	
	LASERS	TRSL
Active members	40,321	82,886
Retirees/beneficiaries	46,940	73,195
DROP participants	1,838	2,291
Total benefits paid	\$1.167B	\$1.9B
Average annual benefit*	\$24,204	\$25,218

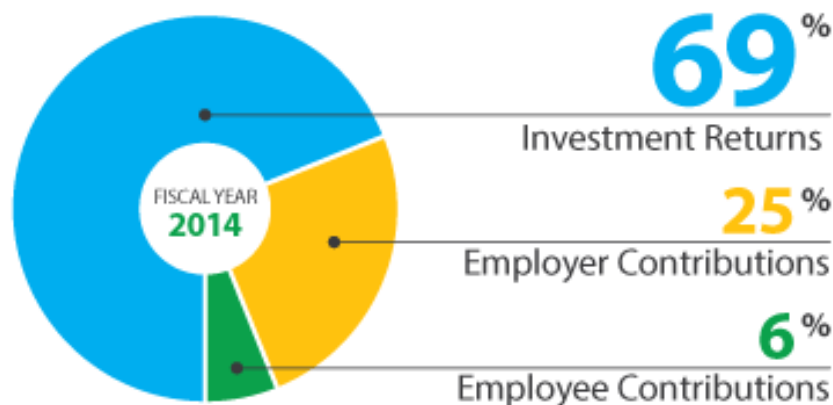
\*Louisiana public employees do not participate in Social Security.

## Systems at a Glance

	Fiscal Year 2014	
	LASERS	TRSL
Net assets	\$11.63B	\$17.9B
Market rate of return ( <i>net of fees</i> )	18.5%	19.5%
FY 2014 actuarial rate of return	13.45%	13.14%
30-year average actuarial rate	8.34%	8.60%
Funded ratio	59.3%	57.4%
Unfunded accrued liability	\$7.27B	\$11.97B

## Funding Sources

- The retirement systems are funded by three sources:
  - » Employee contributions - established in law; average member contribution is 8% of salary for both systems
  - » Employer contributions - based on actuarial calculations provided in statute; determined annually
  - » Investment earnings - employer and employee contributions are pooled and invested by each system



## Contribution Rates

### Employer Contributions

- Employers contribute a percentage of payroll toward funding retirement benefits.
- The employer contribution rate has two components:
  - 1) The normal cost
    - » Cost of benefits accrued by working members in the current year
  - 2) The shared UAL (debt payment)
    - » Determined by statute
    - » Cost of amortizing unfunded liabilities
      - Current payment schedule ensures IUAL is paid by 2029
      - Remaining liabilities generally satisfied over 30 years or less

## Contribution Rates

### FY 2015-16 Contribution Rates (Aggregate)

System	Employee Normal Cost Rate	Employer Rate		
		Normal Cost	Shared UAL	Total Employer
LASERS	8.0%	3.56%	33.4%	37.0%
TRSL	8.0%	4.23%	22.0%	26.2%

Employees do not pay toward the state's UAL.

## Contribution Rates: Public vs. Private

### Contributions for Benefits Being Earned\*

	LASERS		TRSL	
EMPLOYER	Normal Cost =	3.56%	Normal Cost =	4.23%
	Social Security =	6.2%	Social Security =	6.2%
EMPLOYEE	Normal Cost =	8%	Normal Cost =	8%
	Social Security =	6.2%	Social Security =	6.2%

\*Aggregate rates for both LASERS and TRSL



## Employer Contributions

- **LASERS**
  - » State payments to LASERS expected to decrease by **\$63 Million** in FY 2016.
- **TRSL**
  - » Employer contributions to TRSL expected to decrease by **\$46 Million** in FY 2016.

## Legislative Reforms

- LASERS
  - » **\$3 Billion** in expected long-term cost savings adopted by the Legislature.
- TRSL
  - » More than **\$5 Billion** in expected long-term cost savings adopted by the Legislature.

## Legislative Reforms

1987	ACT 947	<ul style="list-style-type: none"><li>▪ C.A. Requires retirement systems to be actuarially sound</li><li>▪ IUAL (incurred prior to 6/30/88) must be paid off by 2029</li></ul>
	ACT 724	<ul style="list-style-type: none"><li>▪ <b>TRSL</b>-Increased the employee contribution rate from 7% to 8%</li></ul>
1988	ACT 81	<ul style="list-style-type: none"><li>▪ <b>LASERS</b>-Increased rank and file employee contribution rate from 7% to 7.5%</li></ul>
1990	ACT 625	<ul style="list-style-type: none"><li>▪ <b>TRSL</b>-Limited sick and annual leave that can convert to service credit at retirement</li></ul>

## Legislative Reforms

1995	ACT 577	<ul style="list-style-type: none"> <li>■ <b>TRSL</b>-Reduced salary spiking cap from 25% to 10%</li> </ul>
1997	ACT 981	<ul style="list-style-type: none"> <li>■ <b>TRSL</b>-<i>Members hired on or after 7/1/99</i> <ul style="list-style-type: none"> <li>• Required actuarial reduction in benefits for 20-year early retirement eligibility (<b>\$15.6M payroll savings after 20 years</b>)</li> </ul> </li> </ul>
2005	ACT 75	<ul style="list-style-type: none"> <li>■ <b>LASERS</b>-<i>Rank and File members hired after 7/1/06</i> <ul style="list-style-type: none"> <li>• Increased employee contribution rate from 7.5% to 8.0%</li> <li>• Limited retirement eligibility to 10 years of service at age 60</li> <li>• Increased FAC from three to five years</li> <li>• Reduced salary spiking cap from 25% to 15% (<b>projected savings \$750M</b>)</li> </ul> </li> </ul>

## Legislative Reforms

2007	ACT 484	<ul style="list-style-type: none"><li>▪ C.A. Requires retirement provisions with a cost to have a funding source and be paid within 10 years</li></ul>
2009	ACT 497	<ul style="list-style-type: none"><li>▪ Restructured the UAL</li><li>▪ Reduced payments in future years</li><li>▪ Prioritized excess investment earnings' application to debt</li><li>▪ Restructured COLA eligibility and granting requirements</li><li>▪ Used legislative appropriations and funds from side accounts to reduce the UAL (TRSL savings approx. \$800M)</li></ul>

## Legislative Reforms

2010	ACT 992	<ul style="list-style-type: none"> <li>▪ <b>LASERS</b> -New members hired on or after 1/1/2011 <ul style="list-style-type: none"> <li>• Consolidated plans for new hires; Hazardous Duty plans consolidated and benefits adjusted</li> </ul> </li> <li>▪ <b>TRSL</b>-New members hired on or after 1/1/2011 <ul style="list-style-type: none"> <li>• Increased retirement eligibility age; established a five-year FAC (projected savings \$1.2B)</li> </ul> </li> </ul>
	ACT 921	<ul style="list-style-type: none"> <li>▪ <b>TRSL</b>-Restricted retiree return-to-work provisions (\$108M annual savings after 5 years)</li> </ul>
	ACT 1048	<ul style="list-style-type: none"> <li>▪ C.A. Requires 2/3 legislative approval of new retirement provisions with a cost</li> </ul>
2011	ACT 422	<ul style="list-style-type: none"> <li>▪ C.A. Provides for a minimum of nonrecurring revenue to be applied toward reducing the IUAL (<b>TRSL-\$9.7M/LASERS-\$4.3M</b> appropriated in 2014)</li> </ul>

## Legislative Reforms

2012	ACT 868	C.A. Requires forfeiture of retirement benefits by certain members convicted of certain felony acts associated with public employment.
2014	ACT 399	<ul style="list-style-type: none"> <li>▪ Dedicated additional excess investment returns toward the UAL</li> <li>▪ Restructured COLA granting requirements (Long-term savings = <b>TRSL-\$3.0B</b> / <b>LASERS-\$1.8B</b>)</li> </ul>
	ACT 226	<ul style="list-style-type: none"> <li>▪ Increased the retirement eligibility age from 60 to 62 for new hires (<b>TRSL-\$31M savings</b>; <b>LASERS-\$16M savings</b>)</li> </ul>
	ACT 571	<ul style="list-style-type: none"> <li>▪ Changed actuarial method from Projected Unit Credit to Entry Age Normal for greater budget stability</li> </ul>

## Unfunded Accrued Liability (UAL)

- The UAL is the difference between the system's actuarial value of assets and its liabilities, which is calculated annually by the systems' actuary.
- The UAL has existed since the inception of both systems - LASERS (1946) and TRSL (1936).
  - » Benefits were granted but not fully funded.
- Significant reasons for the UAL include:
  - » Insufficient payments;
  - » Back-loaded payment schedules;
  - » Negative experience account balance; and
  - » Market downturn.



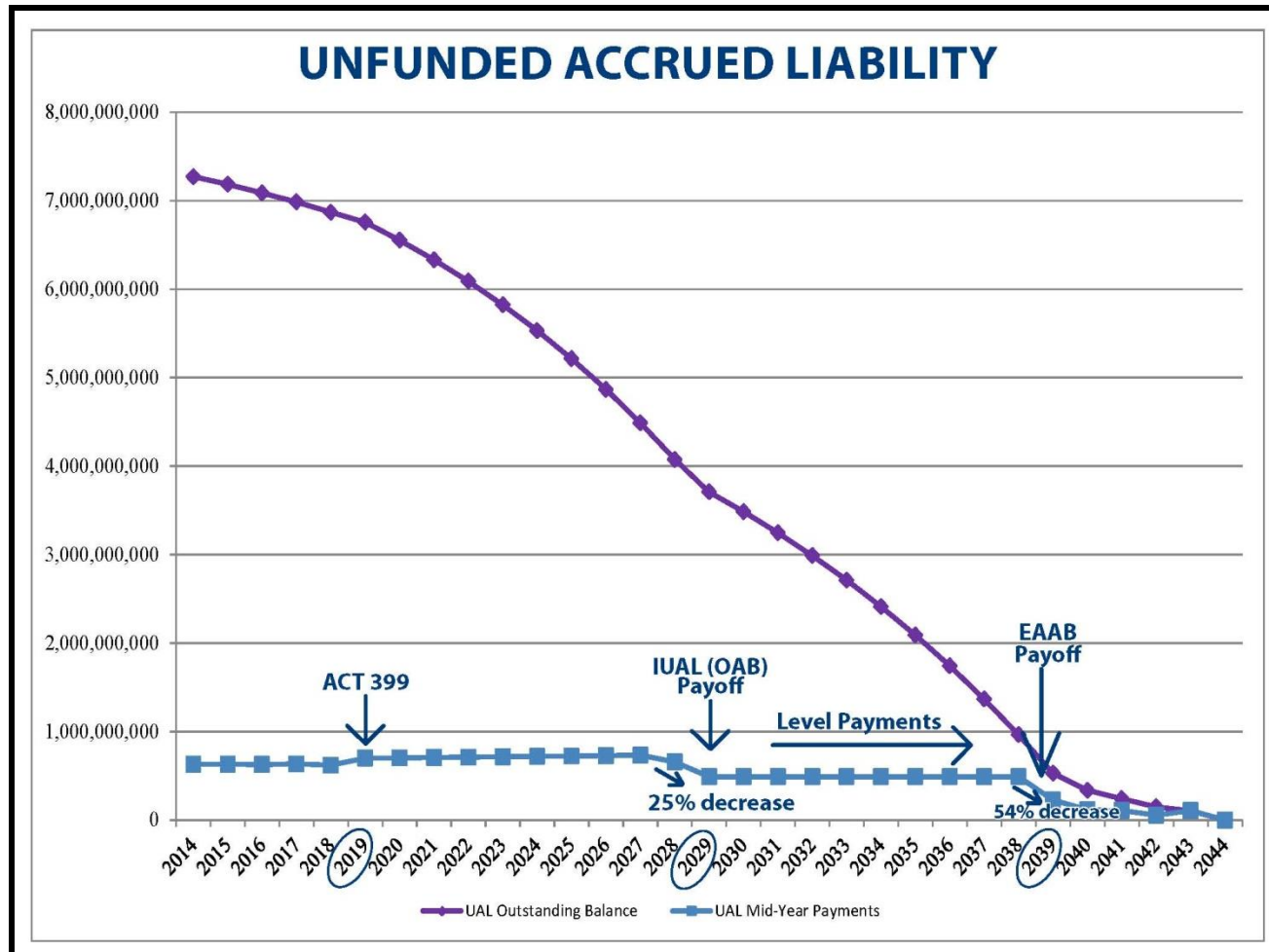
## Unfunded Accrued Liability (UAL)

- The primary reasons for the FY 2014 UAL increase:
  - » **Changed actuarial method to entry age normal (EAN)**
    - One-time impact on the UAL
    - Corresponding decrease in the Normal Cost (cost of accruing benefit)
    - Creates greater budget stability
  - » **Lowered discount rate to 7.75%**
    - Establishes more reasonable return expectations
- Both of these changes were made to contain future costs and ensure the sustainability of the plans.

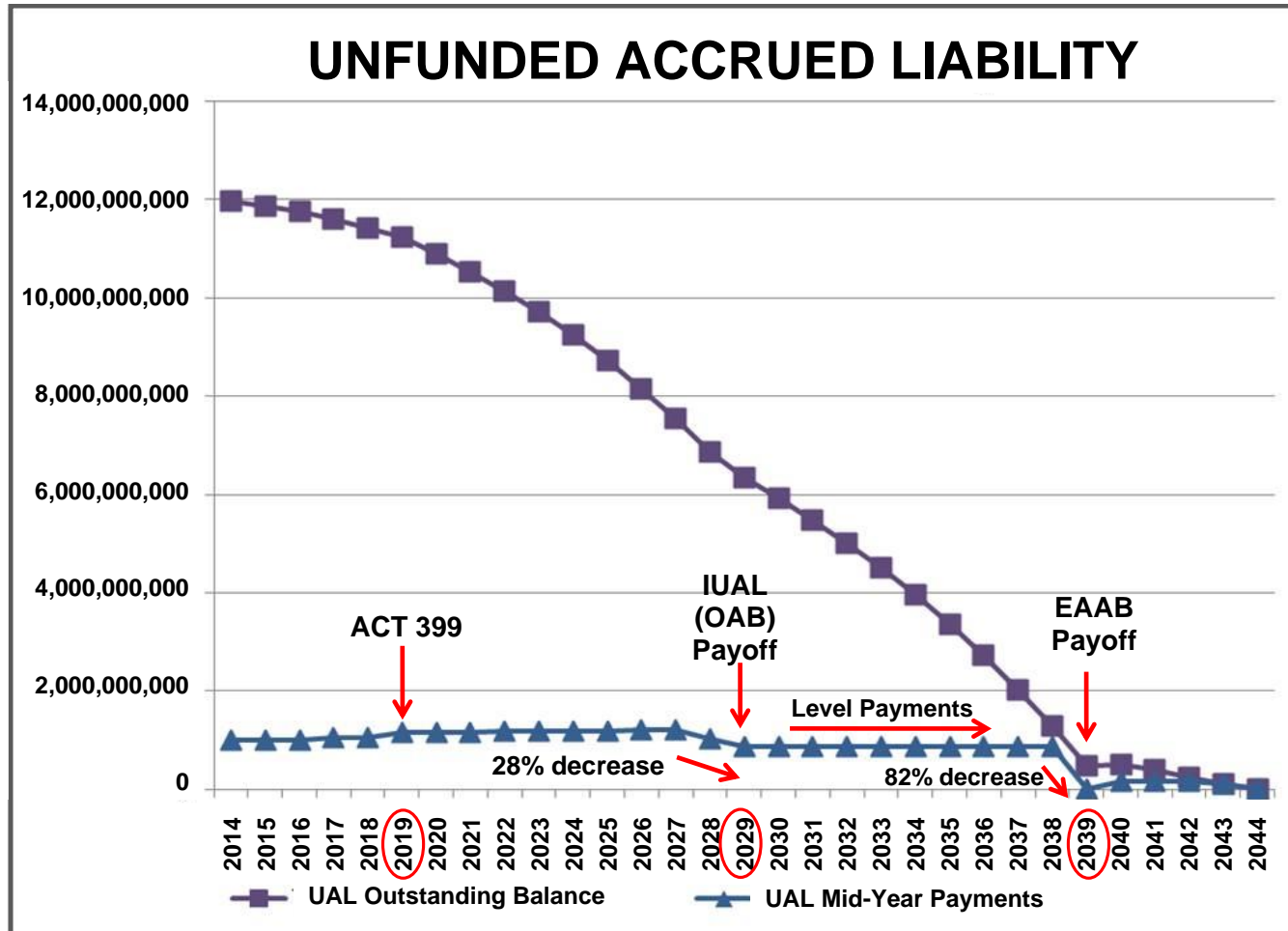
## Unfunded Accrued Liability (UAL)

- **Good news:** Reforms of last 25 years are working!
  - » State is following payment plan to reduce the debt.
  - » Turned the corner: Payments are now covering principal and interest.
  - » Reforms are in place.
  - » There is no balloon payment.

# LASERS (UAL)



# TRSL (UAL)



## Summary

- Systems are financially and actuarially sound.
  - » State is following payment plan to reduce debt and is now paying principal and interest.
  - » **There is no balloon payment.**
- Cost of accruing benefits substantially lower than Social Security.
- Employees do not pay toward the state's UAL.
- Positive economic impact in Louisiana -
  - » Over \$3 Billion in retirement benefits paid last year (combined TRSL and LASERS).
  - » Approx. 90% goes to retirees and beneficiaries living in Louisiana.
- Legislative reforms expected to reduce long-term costs by a combined \$8 Billion (combined TRSL and LASERS).